

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. EPB-02-150
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ORDER REQUIRING ADDITIONAL INFORMATION

(Issued August 28, 2002)

On March 29, 2002, Interstate Power and Light Company (IPL) filed its multiyear plan and budget for managing regulated emissions from its electric power generating facilities in the state that are fueled by coal pursuant to Iowa Code Supplement § 476.6(25) (2001). Iowa Code § 476.6(25)(d) provides that the Utilities Board (Board) shall issue an order approving or rejecting a plan or budget within one hundred eighty days after the public utility's filing is deemed complete. It is therefore necessary to determine whether MidAmerican's plan and budget is complete.

The statute is somewhat unclear in two ways. First, the second sentence of § 476.6(25)(a) states that each rate-regulated utility shall develop the plan for managing regulated emissions from "its facilities," but does not limit "facilities" to electric generation facilities that are fueled by coal as is done in the first sentence. Second, the statute contains no definition of completeness.

The undersigned interprets the statute in the following ways.

The meaning of "facilities." Since the first sentence of § 476.6(25)(a) refers to electric power generating facilities in the state that are fueled by coal, the second

sentence of the same paragraph will be interpreted as if it contained the same language. Therefore, rate-regulated utilities must file plans and budgets only for regulated emissions from their coal-fired electric generation facilities.

The meaning of "complete." The term "complete" within the meaning of § 476.6(25)(d) will be interpreted to mean "complete" with respect to those types of emissions with associated compliance expenses that the utility has included in its plan and budget. The same will be true of any update to the plan and budget that the utility files. However, if the plan and budget is approved, the utility will only receive assured recovery of those expenses pursuant to § 476.6(25)(e) that it has included in its plan and budget, as opposed to having recovery be determined after-the-fact in a subsequent rate case.

In addition, the term "complete" will be interpreted in a functional way. "Completeness" means the plan and budget must include sufficient information for the Department of Natural Resources to be able to perform its required function under § 476.6(25)(a)(4), and for the Board to be able to evaluate the plan and determine whether or not it meets the statutory requirements.

Finally, on May 31, 2002, IPL clarified that it is requesting the Board to approve its plan and budget for the 24-month period which began on April 1, 2002, taking into consideration that certain costs incurred during this period are part of a series of investments extending over a longer period of time. Therefore, "completeness" relates only to the information in the plan and budget for this two-year period beginning April 1, 2002.

Required additional information. Given the above interpretations, the plan and budget are not yet complete. In order for the plan and budget to be deemed complete, IPL must provide the following information and answers to questions. All requested information relates to the plan and expenditures for the two-year period beginning April 1, 2002. IPL must provide the requested information for all generating facilities for which IPL is requesting approval listed in the plan and budget, including those not wholly owned or operated by IPL.

1. In its plan and budget at page 6, IPL stated:

IPL stresses that implementation of this Plan and Budget is not only contingent on the approval of the ratemaking treatment proposed here and in its general rate case, but also on the availability of financing on acceptable terms. IPL does not commit to the schedule implied by the budget. At this time IPL intends to implement the Plan and Budget for 2002. Plans for 2003 and beyond are tentative and will be confirmed in writing prior to the start of each future period. To the extent that these plans are changed based on experience gained during 2002 implementation, new projects or other factors including financing terms for subsequent investments, then IPL will file updates to this Plan and Budget.

In its plan and budget at page 28, IPL stated:

The costs presented exclude indirect costs such as labor overheads and material overheads. All cost estimates and schedules are subject to changes due to a variety of reasons, including changing outage schedules, the application of lessons learned elsewhere, changing plant requirements, changing technologies and changing regulatory requirements.

The CI project is predominately a capital project. Capital costs are accumulated in discrete projects associated with the respective generating stations.

The CI project is an approach based upon a dynamic process of discovery, change, and optimization. As a result, budget figures must be considered as estimates because the nature of this methodology will result in spending changes due to modification adjustments, scope change, timeline shifts and technology improvements.

Considering the likelihood of changes in activities and costs, the lack of commitment to particular actions by IPL, and the generalized descriptions of what activities and costs are planned for the Combustion Initiative (CI), please explain why the Board should approve the plan and budget pursuant to Iowa Code § 476.6(25) at this time, as opposed to having recovery be determined after-the-fact in a general rate case, or in a later § 476.6(25) case once plans and costs are more definite.

2. Recognizing that plans may change and the statute provides for updates, please explain specifically which actions IPL is planning to make during the two-year period beginning April 1, 2002, for each plant.

3. IPL is seeking approval of the proposed budget only for the two-year period of time beginning April 1, 2002. Please identify each expenditure for which IPL is requesting approval for the two-year period beginning April 1, 2002. In addition, costs are listed for the entire calendar year 2004. Please clarify which costs listed for the year 2004 are included in the plan and budget for this two-year period ending March 31, 2004.

4. Given that there is no state or federal law that requires IPL to take any action to reduce NOx emissions in the two-year timeframe covered by this plan, please provide a detailed explanation of why doing nothing until a regulation or requirement is enacted into law, and/or finalized and implemented by the

Environmental Protection Agency or the Iowa Department of Natural Resources, would not be reasonable. Why should the Board not limit expenditures to zero for the two-year period beginning April 1, 2002, pursuant to Iowa Code § 476.6(25)(f)? Please be specific for each generation facility.

5. IPL included information, including costs, for certain facilities in Wisconsin. Please explain why this information was included. Please clarify that IPL is only requesting approval for expenses related to its Iowa facilities.

6. IPL included zero expenses related to its switchgrass/biomass project, presumably because the project is fully funded by the Department of Energy. At page 6 of its plan, IPL refers to recovery of the approved budget for the CI and Switchgrass projects. IPL also discusses the switchgrass project in the plan and testimony. Please clarify that IPL is not requesting approval for the switchgrass project in its plan and budget. If IPL is requesting some kind of approval for this project, please explain what approval is requested.

7. In its clarification filed May 31, 2002, IPL stated it is requesting the Board to approve its plan and budget for the 24-month period beginning on April 1, 2002. In its plan and budget, IPL included expenses for the Combustion Initiative (CI) for the years 1999, 2000, and 2001. Please clarify that IPL is not requesting approval for any expenses incurred prior to April 1, 2002 in this proceeding. If it is requesting approval for such expenses in this proceeding, IPL must provide the information requested in this order for any such expenses. It must also explain how the Board could, and why it should, approve any expenses incurred prior to the

effective date of Iowa Code § 476.6(25), pursuant to that statute, as opposed to having recovery be determined after-the-fact in a general rate case.

8. Please describe each of the Iowa facilities listed in the Plan by percent ownership, size (net capacity), age (beginning operating date), projected retirement date, and type(s) of coal-fired generating unit, to the extent not already provided.

9. Are any of the actions and expenditures in the plan and budget needed to address current environmental requirements, or those that will be in effect in the two-year period beginning April 1, 2002? If so, please provide a detailed explanation.

10. Please verify that the CI is intended to reduce NO_x emissions, limit CO increases or maintain current CO levels, and have no effect on other regulated pollutants. If this is not correct, please explain. If IPL is basing its request for approval of this plan and budget on emission reductions for any other pollutant, please provide the same information for those pollutants as is requested for the NO_x reductions. Please be specific for each pollutant, technology or action, and location.

11. Given that there is no state or federal law that requires IPL to take any action to reduce NO_x emissions, please provide a detailed explanation of why IPL chose the particular levels of proposed limits and reductions for NO_x at each plant.

12. Given that there is no state or federal law that requires IPL to take any action to reduce NO_x emissions in the two-year timeframe covered by this plan, please provide a detailed explanation and justification for the timing of each proposed action and proposed expenditure. Please be specific for each generation

facility. If the timing relates to other planned outages, please provide details of the schedule for planned outages and how the outages for the addition of pollution control equipment coincide. If timing relates to necessary lead times related to limited availability of control equipment, labor, or other factors, please provide a detailed explanation.

13. Given that there is no state or federal law that requires IPL to take any action to reduce NOx emissions in the two-year timeframe covered by this plan, please provide a detailed explanation and justification for the particular piece(s) of control equipment or activities chosen for each plant. Please discuss all options evaluated and considered for each plant, why these particular control technologies and/or activities were chosen for evaluation, and why and how these options were rejected in favor of the chosen options.

14. Please explain in detail how IPL estimated the NOx emission reductions on page 27 in the plan and budget. Please be specific for each planned control technology and/or activity at each location. Please explain how the estimated reductions relate to the proposed limits contained in Appendix B at page 39 and Appendix E at page 55 of Exhibit 2, Schedule E, attached to Mr. Alan Arnold's direct testimony.

15. For each particular piece of control equipment and activity considered and either chosen or rejected, please provide detailed cost information and justification for the control equipment and activity chosen for each facility. Please explain in detail how IPL determined the capital costs for each piece of equipment

and activity at each generation facility, and an estimate of the accuracy of each estimate. Please explain why each chosen control piece of equipment and activity is the lowest cost or most cost-effective choice for each facility.

16. For the generating facilities not wholly owned by IPL, please provide an explanation of how IPL determined its share of the costs. Do the costs listed in the plan and budget include only IPL's share of the costs? Please explain in detail. If costs shown include more than IPL's share of the costs, please provide a detailed explanation and justification. Are all joint owners in agreement with the plan and budget?

17. For the two-year period covered by this plan and budget, please explain each number in Attachment G (Iowa facilities only) in detail, including what activities, specific control equipment, other capital costs, O&M, and any other costs are included, the basis for each number, and why the amounts must be spent in that year.

18. Please explain which costs to be incurred in the two-year period of time beginning April 1, 2002, are "part of a series of investments extending over a longer period of time." Please explain why these activities, environmental controls, and costs should be approved for implementation in this plan, absent approval for the complete series of investments. Please state whether IPL believes approval of such costs would commit IPL and the Board to continuing the entire series of investments, and explain your answer.

19. On pages 28-29 of the plan and budget, IPL provides summary information regarding estimated central O&M, but has not yet estimated plant-specific O&M. Please explain each number in detail, including what activities and costs are included, the basis for each number, how each number was calculated, why the amounts must be spent in each listed year, and how the amounts were allocated to each plant.

20. From the information at pages 5 and 6 of the plan and budget, testimony of Mr. Seitz, and IPL's clarification, it appears that IPL is only requesting: 1) approval of the two-year period beginning April 1, 2002, of its plan and budget as reasonable in achieving cost-effective compliance with expected¹ state and federal ambient air quality standards; and 2) for the Board to find that the proposed ten-year straight-line depreciation schedule for CI capital costs other than computers and software is reasonable. IPL is not proposing a mechanism to recover these costs in this docket, because it is doing so in its general rate case, Docket No. RPU-02-3. Please verify that this understanding is correct. Please clarify that IPL is not also asking for approval of some method of concurrent recovery (see Mr. Seitz' direct testimony at page 5, line 2).

¹ Iowa Code § 476.6(25)(c) states that the Board is to approve the plan and budget if it is reasonably expected to achieve cost effective compliance with applicable state environmental requirements and federal ambient air quality standards.

IT IS THEREFORE ORDERED:

1. IPL must provide the information and answers to questions listed in this order no later than Wednesday, September 25, 2002.
2. Once IPL submits the required information and the plan and budget are deemed complete, an order deeming the plan complete and setting a procedural schedule and hearing date will be issued.

UTILITIES BOARD

/s/ Amy L. Christensen
Amy L. Christensen
Administrative Law Judge

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 28th day of August, 2002.